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SUBJ: NEW MOROCCAN RESTRICTIONS ON IMPORTS: ANALYSIS OF GOM
MEASURES, LOCAL REACTION AND IMPLICATIONS FOR US TRADE

REF: (A) RABAT 3852, (B) RABAT 3334, (C) RABAT 3763,
(D) CASABLANCA 983

SUMMARY: NEW GOM RESTRICTIONS ON IMPORTS, WHICH INCLUDE
PROHIBITION OF CERTAIN PRODUCTS, EXTENSION OF GOM
LICENSING REQUIREMENT TO MANY PRODUCTS FORMERLY
IMPORTED FREELY AND IMPOSITION OF PRIOR IMPORT DEPOSITS
FOR MOST IMPORTS, WERE DESIGNED TO IMPLEMENT KING HASSAN'S
DIRECTIVE TO REDUCE IMPORTS 20 PER CENT BY END OF RECENTLY
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ANNOUNCED THREE-YEAR INTERIM PLAN. SINCE PROHIBITED
ITEMS COMPRISE ONLY A SMALL PORTION OF TOTAL IMPORTS,
THE EFFICACY OF THESE MEASURES WILL HINGE ON GOM
APPLICATION OF LICENSING REQUIREMENTS. MOROCCAN
BUSINESS COMMUNITY FEELS IMPORT MEASURES TAKEN TO
CONTROL COUNTRY'S SERIOUS AND WORSENING BALANCE OF
TRADE DISEQUILIBRIUM WILL IMPACT NEGATIVELY ON BUSINESS

TURNOVER AND PUSH NUMEROUS LARGE IMPORTING FIRMS CLOSE TO THE BRINK. IMPACT OF MEASURES ON US IMPORTS IS LIKELY TO BE SLIGHT. PRIMARY EFFECT WILL BE ON MOROCCO'S MAJOR EC TRADING PARTNERS, ESPECIALLY FRANCE. THE EMBASSY ANTICIPATES NO RETALIATORY MEASURES FROM AFFECTED SUPPLIER NATIONS. FURTHER GOM DOMESTIC AUSTERITY MEASURES EXPECTED TO FOLLOW IMPORT MEASURES AS PART OF COMPREHENSIVE PROGRAM TO REMEDY MOROCCO'S BALANCE OF TRADE, DOMESTIC LIQUIDITY AND INFLATION PROBLEMS. END SUMMARY.

1. AS A CONSEQUENCE OF KING HASSAN'S DIRECTIVE TO REDUCE IMPORTS BY 20 PER CENT BY THE END OF THE RECENTLY ANNOUNCED THREE-YEAR PLAN (REF B), THE GOM MINISTRY OF COMMERCE AND INDUSTRY PUBLISHED A SERIES OF MEASURES DESIGNED TO CONTROL THE FLOW OF IMPORTS THAT HAS ERODED MOROCCO'S BALANCE OF TRADE POSITION. MOROCCO'S COMMERCIAL DEFICIT TOTALLED APPROXIMATELY \$1.9 MILLION IN 1977, AN INCREASE OF 43 PER CENT OVER THAT OF 1976 (\$1.3 BILLION), MORE THAN DOUBLE THAT OF 1975 AND MORE THAN TEN TIMES THAT OF 1974. THESE MEASURES, WHICH WERE ANNOUNCED JUNE 16-21, 1978, COMPRISE (1) THE INCLUSION OF SOME 190 ADDITIONAL ITEMS ON THE LIST OF PROHIBITED IMPORTS--LIST C OF THE GOM'S GENERAL PROGRAM OF IMPORTS DESCRIBED REF C, (2) THE TRANSFER OF 125 PRODUCTS FOR WHICH LICENSES WERE NOT PREVIOUSLY LIMITED OFFICIAL USE

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REQUIRED (LIST A) TO LICENSED STATUS (LIST B) DESCRIBED REF A, AND (3) AN IMPORT DEPOSIT REQUIREMENT OF 25 PER CENT OF VALUE OF EACH ORDER DESCRIBED REF D.

2. THE NEW LIST OF PROHIBITED PRODUCTS, WHICH TOOK EFFECT JUNE 19, 1978, INCLUDES LUXURY ITEMS, PRODUCTS ALREADY PRODUCED LOCALLY AND PRODUCTS FOR WHICH LOCAL SUBSTITUTES EXIST. MOST SIGNIFICANT PROHIBITED ITEMS ARE AS FOLLOWS: FOODS (BANANAS, CHEESE, CANDY, MUSTARD, SAUCES AND SEASONINGS, MINERAL WATER AND BEER), PAPER PRODUCTS, HOME APPLIANCES (GAS OVENS, REFRIGERATORS, WASHING MACHINES), PRINTED ARTICLES, VELVET AND PLUS, RUGS, FABRICS, CLOTHING, TELEVISION SETS, OUTBOARD MOTORBOATS, HAND TOOLS, PASSENGER CARS, FOUR-WHEEL DRIVE VEHICLES, MOTORCYCLES, ARMS, AND AMMUNITION. AS REPORTED REF C, TOTAL IMPORTS (CY 1976) OF PRODUCTS ON NEWLY PUBLISHED LIST ARE RELATIVELY SMALL--DH 265.5 MILLION (U.S. \$59.5 MILLION) WHICH REPRESENTS 2 PER CENT OF TOTAL IMPORTS (DH 11,554.6--US \$2,590.7 MILLION) AND 4 PER CENT OF THE 1976 TRADE DEFICIT (DH 5,975.3--US \$1,339.75 MILLION). COMMENT: THIS APPARENTLY INDICATES THAT GOM ATTEMPTS TO IMPLEMENT KING HASSAN'S

DIRECTIVE TO REDUCE IMPORTS 20 PER CENT DURING THREE-YEAR PLAN HINGE ON APPLICATION OF NEW IMPORT LICENSING MEASURES. SOME OBSERVERS, HOWEVER, HAVE SUGGESTED THAT THE 20 PER CENT FIGURE REFERS TO AN IMMEDIATE REDUCTION IN THE QUANTITY OF IMPORTED ITEMS, AND NOT A REDUCTION IN TOTAL VALUE OF IMPORTS.

3. INITIAL REACTION OF CASABLANCA BUSINESS COMMUNITY BOTH TO IMPORT RESTRICTIONS IN PARTICULAR AND TO THREE YEAR PLAN IN GENERAL IS MIXTURE OF SKEPTICISM AND PESSIMISM. VERY LARGE NUMBER OF CASABLANCA IMPORTING FIRMS SEE THEIR ECONOMIC ACTIVITIES SEVERELY CURTAILED BY NEWLY ENLARGED LIST C. SOME FEAR THEIR ANNUAL TURNOVER WILL BE REDUCED BY AS MUCH AS 50 PER CENT, LIMITED OFFICIAL USE

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LEADING TO REDUCTION IN WORKING HOURS, LAYING OFF OF PERSONNEL AND POSSIBLE BANKRUPTCY. EVEN IF FIRMS THAT DEAL IN NEWLY PROHIBITED ITEMS ARE ABLE TO CORNER MARKET FOR ALL SUBSTITUTES THAT ARE OR CAN BE MADE IN MOROCCO, THEY SEE NO HOPE OF MAINTAINING THEIR CURRENT SALES VOLUME. ALTHOUGH MANY IMPORTING FIRMS REPORTEDLY QUESTION THEIR ABILITY TO SURVIVE THE THREE YEAR PLAN, EMBASSY AND CONGEN CASABLANCA HAVE RECEIVED REPORTS THAT SOME FIRMS--WARNED IN ADVANCE ABOUT THE NEW IMPORT MEASURES--HAVE BEEN ABLE TO STOCKPILE SUBSTANTIAL QUANTITIES OF RESTRICTED PRODUCTS. FOR EXAMPLE, CHEESE IMPORTING FIRMS IN CASABLANCA REPORTEDLY HAVE ONE YEAR'S SUPPLY OF CERTAIN PROHIBITED GOODS IN STORAGE. LUXURY AUTOMOBILE DEALERS IN CASABLANCA REPORTEDLY HAVE AMASSED VEHICLE INVENTORIES SUFFICIENT FOR 1-2 YEARS SALES. FOREIGN-MADE AUTO DEALERS WILL IN ANY CASE NOT CLOSE DOWN COMPLETELY, BUT WILL REMAIN OPEN SELLING LOCALLY ASSEMBLED VEHICLES AND PROVIDING SERVICE AND SPARE PARTS TO PREVIOUS CUSTOMERS. IN THE LONG-TERM, RESTRICTIONS ON THE IMPORT OF PASSENGER CARS--WHICH ACCOUNTED FOR TWO PER CENT OF ALL IMPORTS IN 1977--ARE CERTAIN TO REVITALIZE THE DOMESTIC AUTO INDUSTRY, WHICH HAS BEEN PLAGUED THIS YEAR BY HIGH INVENTORIES OF CERTAIN MODELS.

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4. AS MENTIONED REF C, IMPACT OF PROHIBITIONS
ON US GOODS IS SLIGHT, AMOUNTING TO DH 7.9 MILLION
(US \$1.78 MILLION) OR 3 PER CENT OF TOTAL NEWLY PROHIBITED
ITEMS. THE ITEMS MOST AFFECTED ARE: VELVET AND PLUSH
(US \$730,00), RUBBER-COATED AND PLASTIC-COATED FABRICS
(US \$176,000), OUTBOARD MOTORBOATS (US \$147,000), AND
HOME REFRIGERATORS (US \$128,000). ADDITIONAL PROHIBITED
US PRODUCTS WHICH HAVE PREVIOUSLY BEEN SOLD IN MOROCCO
INCLUDE BEER, ELECTRIC HOUSEHOLD APPLIANCES, AUTOMOBILES,
MOTORCYCLES, ALUMINUM DOOR AND WINDOW FRAMES AND JUKE BOX PARTS.

5. GOM TRANSFER OF CERTAIN IMPORTED PRODUCTS FROM
UNLICENSED (LIST A) TO LICENSED STATUS (LIST B)
REPORTED REF A AFFECTS 125 PRODUCT GROUPS WITH A TOTAL
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VALUE (CY 1976) OF APPROXIMATELY DH 2.88 BILLION
(US \$645 MILLION). THESE PRODUCTS, CONSISTING MAINLY
OF INDUSTRIAL MACHINERY, METAL AND PLASTIC MATERIALS,
VARIOUS INDUSTRIAL MATERIALS AND COMMERCIAL VEHICLES,
AMOUNT TO A VALUE OF 25 PER CENT OF TOTAL 1976 IMPORTS
AND 48 PER CENT OF THE 1976 TRADE DEFICIT. THIS
INCREASED LICENSING DISCRETION WILL HAVE GOM A POTENTIALLY
EFFECTIVE MEANS OF REGULATING IMPORT FLOWS AND REDRESSING
BALANCE OF TRADE DEFICIT. CASABLANCA BUSINESS COMMUNITY

IS JUSTIFIABLY CONCERNED THAT THIS MEASURE WILL PRECIPITATE A FURTHER REDUCTION IN BUSINESS TURNOVER. ITEMS IMPORTED UNDER LICENSE WILL BE SUBJECT TO QUOTAS DETERMINED BY MINISTRY OF COMMERCE'S JUDGMENT OF MOROCCO'S NEEDS. BUSINESSMEN EXPECT A PERIOD OF SIX MONTHS TO ELAPSE FROM THE DATE OF APPLICATION FOR IMPORT LICENSE TO THE ACTUAL RECEIPT OF GOODS (IN CONTRAST TO BRIEF PERIOD REQUIRED TO IMPORT ITEMS ON LIST A). IN THE PAST, IMPORT LICENSES HAVE BEEN GRANTED AFTER A LENGTHY PROCESS OF REVIEW BY MINISTRY OF COMMERCE AND INDUSTRY, MINISTRY OF FINANCE AND EXCHANGE CONTROL OFFICE. WITHOUT SOME GOM EFFORT TO STREAMLINE LICENSE APPLICATION PROCEDURE, BUSINESS COMMUNITY FEELS THAT NEW MEASURES WILL LEAD TO INCREASED WORKLOAD FOR REGULATORY MINISTRIES, EXTENDED DELAY AND INEVITABLE SHARP REDUCTION IN QUANTITY OF IMPORTS. COMMENT: AT THIS JUNCTURE EMBASSY UNABLE TO EVALUATE LONG-TERM IMPACT OF EXPANDED LIST OF LICENSED IMPORTS ON MOROCCO'S BALANCE OF TRADE DEFICIT. WHILE MEASURE GIVES GOM ADDED CONTROL OVER FLOW OF IMPORTS, POTENTIAL FOR OFFICIAL CORRUPTION IN GRANTING LICENSES ALSO ENHANCED. IT IS PREMATURE TO SPECULATE AS TO WHETHER LICENSING REQUIREMENT AND OUTRIGHT PROHIBITIONS OF PRODUCTS WILL EXTEND BEYOND THREE-YEAR PLAN.

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6. AS REPORTED REF A, US IMPORTS SUBJECT TO LICENSING MEASURE ARE RELATIVELY MODEST AND AMOUNT TO APPROXIMATELY 142.9 MILLION DH (APPROXIMATELY US \$32 MILLION) OR 14.4 PER CENT OF MOROCCAN IMPORTS FROM US. THE MOST AFFECTED US PRODUCTS ARE INDUSTRIAL MATERIALS AND EQUIPMENT, ESPECIALLY: INTERNAL COMBUSTION ENGINES (US \$1.57 MILLION); TURBINES AND HYDRAULIC MACHINES (US \$3.3 MILLION); PUMPS, COMPRESSORS AND FANS (US \$3.2 MILLION); EQUIPMENT FOR BOTTLING WEIGHING AND PACKAGING AND AGRICULTURAL MACHINERY (US \$10.6 MILLION); EQUIPMENT FOR METAL WORKING, PROCESSING STONES, WOOD AND PLASTIC MATERIALS (US 6.7 MILLION); RAILROAD VEHICLES AND NON-ELECTRIC SIGNALING EQUIPMENT (US \$2.4 MILLION).

7. IMPORT DEPOSIT REQUIREMENT, REPORTED REF D, IS THIRD COMPONENT OF GOM IMPORT CONTROL MEASURES. NEW REGULATION REQUIRES EACH IMPORTERS OF GOODS INTO MOROCCO TO DEPOSIT AT THE BANK OF HIS CHOICE (WHICH WILL TRANSFER THE FUNDS IMMEDIATELY TO THE BANK OF MOROCCO) 25 PER CENT OF THE VALUE OF EACH ORDER, WHETHER ON LIST A (FREE IMPORTATION) OR LIST B (IMPORTATION UNDER LICENSE). ALL GOM IMPORTS, INCLUDING MILITARY SUPPLIES,

ARE REPORTEDLY EXEMPTED FROM THIS REQUIREMENT. IMPORTS OF RAW MATERIALS, INDUSTRIAL EQUIPMENT, AND PRODUCTS INTENDED FOR 100 PER CENT REEXPORT ARE ALSO EXEMPTED. SMALL AND MEDIUM-SIZED FIRMS, DEFINED AT THOSE WHOSE ANNUAL TURNOVER DOES NOT EXCEED DH 7.5 MILLION AND WITH LESS THAN 100 EMPLOYEES, ARE NOT SUBJECT TO THIS REGULATION.

8. PURPOSE OF IMPORT DEPOSIT REQUIREMENT IS SUPPOSEDLY TO EASE GOM'S CRITICAL LIQUIDITY SHORTAGE AND TO PREVENT SPECULATION BY LARGE IMPORTERS. DEPOSIT MUST BE MADE WHEN THE IMPORTERS CHOOSES THE BANK WHICH WILL MAKE THE PAYMENT TO THE SUPPLIER. DEPOSITS ARE LIMITED OFFICIAL USE

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BLOCKED FOR SIX MONTHS EVEN IF THE GOODS ARRIVE IN LES TIME AND EARN NO INTEREST. MANY FIRMS, ALREADY HARD PRESSED BY THE FAILURE OF GOM TO PAY THEM AMOUNTS DUE, WILL FIND GREAT DIFFICULTY TYING UP ADDITIONAL FUNDS FOR SIX MONTHS. AN ESTIMATED 350 LARGE MOROCCAN IMPORTING FIRMS--OVER 300 IN CASABLANCA ALONE--WILL BE AFFECTED BY THIS MEASURE.

9. MAJOR IMPACT OF NEW IMPORT CONTROL MEASURES FALLS ON MOROCCO'S EC TRADING PARTNERS, ESPECIALLY FRANCE. FOREIGN TARIFF RETALIATION IS NOT EXPECTED AS GOM STRESSES NON-DISCRIMINATORY APPLICATION OF MEASURES AND PRESENTS THEM AS TRADITIONALLY ACCEPTED BALANCE OF PAYMENTS SAFEGUARD MEASURES.

10. THE GOM'S NEW LIST A (FREE IMPORTATION) NOW INCLUDES PRODUCTS WITH A VALUE OF (CY 1976) DH 3.5 BILLION OR US \$788.3 MILLION. PRINCIPAL ITEMS INCLUDE: VITAL RAW MATERIALS, NON-SUBSTITUTABLE PRODUCTS (E.G., TEA, SUGAR), TOOLS AND INDUSTRIAL MATERIALS, RADIO AND TELEVISION BROADCASTING EQUIPMENT, AUTOMOBILE SPARE PARTS, AIRCRAFT AND SPARE PARTS, AND BOATS (EXCEPT PLEASURE CRAFT).

11. ADDITIONAL DOMESTIC ECONOMIC MEASURES BY GOM ARE EXPECTED TO FOLLOW NEW IMPORT PROGRAM. LIEKLY COMPONENTS OF DOMESTIC PACKAGE SHOULD INCLUDE PRICE CONTROLS AND WAGE RESTRAINTS, AND MAY ALSO ENCOMPASS LONG-PROMISED RENT CONTROL AND TAX REFORM MEASURES. ANDERSON

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